

**Audited Financial Statements of  
the Office of the Comptroller of  
the Currency for Calendar Year 2000**

OIG-01-075

June 7, 2001



**Office of Inspector General**

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**The Department of the Treasury**



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 7, 2001

MEMORANDUM FOR JOHN D. HAWKE, JR.  
COMPTROLLER OF THE CURRENCY  
OFFICE OF THE COMPTROLLER OF THE CURRENCY

FROM: William H. Pugh, *William H. Pugh*  
Deputy Assistant Inspector General  
for Financial Management and Information  
Technology Audits

SUBJECT: Audited Financial Statements of the Office of  
the Comptroller of the Currency for  
Calendar Year 2000

I am pleased to transmit the audited financial statements of the Office of the Comptroller of the Currency (OCC) for Calendar Year (CY) 2000. These financial statements are incorporated in the attached *The Office of the Comptroller of the Currency 2000 Annual Report*. The OCC's financial statements were audited by KPMG, LLP, an independent public accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Independent Auditors' Report on Financial Statements;
- Independent Auditors' Report on Internal Control over Financial Reporting; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

The IPA rendered an unqualified opinion on OCC's CY 2000 financial statements. However, the Independent Auditors' Report on Internal Control over Financial Reporting contained two reportable conditions, none of which were considered material weaknesses:

- Adequate controls over Time and Travel Reports (TTRS) disbursements were not in place (Repeat Condition).
- Internal controls over timekeeping were not adequate (Repeat Condition).

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The IPA's report on Compliance with Laws and Regulations, exclusive of the Federal Financial Management Improvement Act (FFMIA) of 1996, contained no instances of noncompliance. However, the IPA noted that the OCC reported, in its Fiscal Year 2000 annual assurance statement, two instances of substantial noncompliance with FFMIA. These instances were related to:

- Federal financial management systems requirements; and
- The United States Government Standard General Ledger at the transaction level.

The IPA also issued a management letter dated March 30, 2001, discussing various issues that were identified during the audit, but were not required to be included in the audit reports.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits at (202) 927-5789.

Attachment

**The Office of the  
Comptroller of the Currency**

**2000 Annual Report**

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# 2000 Annual Report

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## Chief Financial Officer's Message

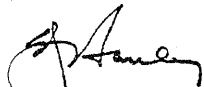
I am pleased to present the Office of the Comptroller of the Currency's Annual Report for the year ending December 31, 2000. The Annual Report provides a discussion of OCC's program and financial activities for the year as well as our financial statements and related independent auditors' report.

Financial management initiatives implemented during 2000 resulted in significant improvements in managing our resources and in strengthening our internal controls:

- ☐ our financial statements received an unqualified "clean" opinion with no material weaknesses;
- ☐ accounting principles generally accepted for federal entities and standard federal budget object class codes were adopted to ensure compliance with reporting requirements for government agencies;
- ☐ funds control processes provide management with more accurate, reliable, and timely financial information;
- ☐ expanded reporting processes strengthen management accountability over budget execution; and
- ☐ new revenue forecasting techniques provide more accurate revenue projections and more detailed accounting of actual versus projected revenues.

During 2001 we will be implementing phase I of the OCC's management accountability reporting tool (\$MART). \$MART is an integrated financial management system designed to support management by providing users with accurate, reliable, and timely financial information.

We are proud of our accomplishments to date and will continue our efforts to strengthen controls and modernize processes to better serve our customers and provide accurate and reliable information to our stakeholders.



Edward J. Hanley  
Senior Deputy Comptroller and  
Chief Financial Officer

**The Office of the  
Comptroller of the Currency**

**2000 Annual Report**

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## **I. Management's Discussion and Analysis**

## 1. Mission and Organization Structure

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system that supports the citizens, communities, and economy of the United States.

The Comptroller's office manages a nationwide staff of bank examiners and other professional and support personnel who examine and supervise federally chartered national banks and federally licensed branches and agencies of foreign banks. The Comptroller receives advice on policy and operational issues from an Executive Committee that consists of the First Senior Deputy Comptroller and Chief Counsel, Chief of Staff, the Ombudsman, and the senior executives of Bank Supervision Operations, Bank Supervision Policy, International and Economic Affairs, Public Affairs, Management, and Information Technology. The OCC mission is supported with the following programs:

- ☐ **The OCC's licensing process** involves ongoing activities that result in the chartering or liquidation of national banks as well as evaluation of the permissibility of structures and activities of national banks and their subsidiaries.
- ☐ **The OCC's rulemaking process** consists of ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks.
- ☐ **The OCC's bank supervision process** consists of ongoing supervision and enforcement activities undertaken to ensure each national bank is operating in a safe and sound manner and is complying with applicable laws, rules and regulations relative to the bank and the customers and communities it serves.
- ☐ **The OCC's analysis process** consists of ongoing activities that identify, analyze, and respond to emerging systemic risks and market trends that could impact the safety and soundness of national banks; the national banking system or groups of national banks; the financial services industry; or the economic and regulatory environment in which banks operate.
- ☐ **The OCC's resource management process** consists of those ongoing activities related to prudently managing OCC's human, financial, physical, and technology resources in a manner designed to ensure that OCC programs achieve their intended results in an efficient and effective manner.
- ☐ **The OCC's external relations process** consists of the activities of discrete organizational functions that educate key agency stakeholders, facilitate their interactions with the OCC or its national bank clientele, or advance specific OCC policy interests to targeted external audiences.



## 2. Performance Goals, Objectives, and Results

### Strategic Goal: A safe and sound national banking system

The OCC maintains a proactive focus to identify potential problems in banking. Our supervisory practices are both up-to-date and adaptable to the rapid evolution of highly complex new products and services being offered by the banking industry. Delivery of information tools and resources to our examination staff continues to improve, including ongoing implementation of the Large Bank Information System (LBIS) and the OCC's early warning, "Canary" system. This system brings together an array of supervisory and economic predictive tools to help identify potential risks to the national banking system as a whole as well as to individual banks. Examiners participate in a wide range of training initiatives to enhance their examining skills, including training in problem bank supervision, internet banking, credit, liquidity/interest rate risk, etc.

Our Ombudsman's findings on supervisory appeals along with information from banker and bank customer feedback are communicated throughout the agency.

Within the context of the economic environment, the OCC continues to minimize the impact and/or number of bank failures with prompt supervisory action including timely enforcement actions and coordination of failure resolution policies and procedures with the Federal Deposit Insurance Corporation (FDIC).

The OCC measures performance as follows:

Performance Measure	2000 Target	2000 Actual
Percentage of bank examinations conducted on schedule (FDICIA examination exceptions after 6/30/00 limited to those related to conversions, mergers, system conversions, etc.)	100%	98% (a)
Percentage of critical work completed on large-bank, mid-size bank, and federal branch and agency strategies	100%	100%
Percentage of enforcement actions against banks that meet policy time frames; i.e. the time frame from the date the supervisory office initiates the recommendation for action to the date the action is completed (signed by the bank)	90%	72% (b)
Percentage of 4- and 5-rated banks with enforcement actions (formal and informal) in place or pending	100%	100%
Percentage of quarterly reviews completed for year 2000 conversion	100%	100%

Percent of examination questionnaires submitted by bankers that are analyzed within 90 days of the close of the evaluation period and disseminated throughout the agency	100%	100%
Supervision 2000 project plan met	Develop project plan, 100% of milestones met	100% of milestones met (c)
Perform quality assurance reviews of the effectiveness of training related to structurally weak loans	Complete	Complete
Provide shared credit training to examiners per schedule	Provide training	Training Provided
Notes: (a) Examination guidelines that allowed examiners to delay community bank safety and soundness exams for up to 90 days in low risk banks were in effect until 6/30/00. During 2000, 98% of exams were conducted within timeframes of examination guidelines.  (b) The current policy time frames measure action dates that are not within OCC control. For example, the current timeframes say that enforcement actions will be completed within 45 days of the date they are initiated. OCC controls when the action is presented to the bank for signature, but OCC does not control when the bank signs the action (completion of the action). OCC is currently rewriting the guidelines so that they will apply to actions within the control of the OCC.  (c) On target to complete implementation of Examiner View and the digital examination process.		

**Strategic Goal: A flexible, regulatory framework that enables the national banking system to provide a full competitive array of financial services**

The OCC fosters competition by allowing banks to offer new products and services to their customers so long as banks have the expertise to manage the risks effectively and to provide the necessary consumer protections. Our legal and licensing analyses of new products and services (considering appropriate legal and policy factors) are timely and allow for appropriate flexibility. Bank safety and soundness concerns are addressed in the consideration of new products, activities, corporate structures, and delivery systems.

Training for new products and services is ongoing. We continue to develop and implement functional supervision for new lines of business.

The OCC measures performance as follows:

Performance Measure	2000 Target	2000 Actual
Percentage of on-time performance for non-protested applications	95 %	96 %
Percentage of instances where supervisory concerns are addressed before new initiatives, products, or powers are approved	100 %	99 %
BSOP tracking system will develop baseline data to gauge participant satisfaction with outreach programs	Report on participant satisfaction	Complete
Project plan for community bank initiatives finalized, 100% of milestones met, recommendation implemented	100 %	100 % of milestones had action taken *
Note: * One item is 90% complete and all other items are 100% complete. Recommendations are in various states of review and implementation		

**Strategic Goal: Fair access to financial services and fair treatment of bank customers**

The OCC ensures fair access to financial services for all Americans by enforcing the Community Reinvestment Act (CRA) and fair lending laws, encouraging national bank involvement in community development activities, and assuring fair treatment of bank customers and compliance with the consumer protection laws. We pursue initiatives that eliminate impediments to access to banking services for certain segments of the population, especially small businesses, low-income individuals, rural individuals and businesses, and victims of illegal discrimination.

Our efforts to ensure fair access to banking services have reduced impediments that deny customers fair access. OCC plans to proceed with outreach programs that develop awareness and improve fair access to banking services. We provide information and analysis to banks to increase their knowledge and awareness of available community development activities. Information is provided to banks on affordable housing, financing for minority small businesses, Native American initiatives, and other community and economic development activities.

Customer complaints and Customer Assistance Group data are monitored and analyzed to identify trends that are used in developing OCC policies and positions. We continue efforts to lead financial institutions in the development of sound procedures and processes in the arena of customer information privacy.

The OCC measures performance as follows:

Performance Measure	2000 Target	2000 Actual
Average number of days to process consumer complaints	45	51
Percentage of requests for consumer complaint information provided within 30 days of the request, or by the requested date if longer than 30 days, with copies of the information to the bank and appropriate bank supervision operations office	95% within time frame	90% within time frame
Publish final privacy regulations as required by new legislation	Complete	Complete
Complete the proposal for consortium-owned bank pilot	Complete	Complete
Percentage of time that follow-up actions are identified and implementation begins within 60 days of access meetings	100% within 60 days	100% within 60 days

**Strategic Goal: An expert, highly motivated, and diverse work force and efficient utilization of other OCC resources**

The quality of our work environment enables us to retain a highly motivated workforce. Plans to implement a new compensation system were finalized signifying our efforts to ensure employees are compensated commensurate with their contributions to the agency. The OCC provides effective training opportunities to OCC personnel to ensure staff experience and expertise is sufficient to carry out our mission. We continue to monitor and take steps to address various work-life issues raised by OCC employees and have formed a committee to develop and implement a strategic plan for active recruitment, retention, and career development.

Our information technology was expanded and upgraded to ensure that financial and supervisory data are available and easier to access agency wide through the implementation of customized data marts and improved analysis tools. A long-term plan will be developed for modernizing and integrating all major OCC administrative transaction processing and information systems, including an integrated planning and budgeting process with automated tools to facilitate annual performance planning and budget development.

The OCC maintains and reviews internal controls to comply with federal standards and to ensure ongoing financial integrity. Approval of a formal capital budgeting process is the first step in a lengthy process to improve financial integrity. Senior management is dedicated to ensure the ongoing effectiveness of internal financial

controls, continued compliance with accounting standards, and effective budgeting and reporting.

The OCC measures performance as follows:

Performance Measure	2000 Target	2000 Actual
Conduct two surveys of Bank Supervision Operations employees where results indicate increased employee satisfaction level	Increase In Satisfaction	Employee Satisfaction Level Decrease Slightly*
Install financial system compliant with Federal financial management system requirements in year 2001	Procurement Started	Procurement Completed
Receive an unqualified audit opinion with no material weaknesses	Completed	Completed
ITS operations maintain server availability to increase access to OCC data	99.5% Availability	99.8% Availability
Note: * Employee satisfaction decreased slightly as a result of identified areas of employee concern. The OCC formed Task Force teams which analyzed these concerns and developed action plans to address the issues. The action plans were communicated to employees and implemented during 2000. A subsequent survey taken in January 2001 reflected the results of these actions with improvement noted in all survey categories.		

### 3. Financial Management Discussion

#### Financial Management Initiatives

The OCC implemented several financial management initiatives and improvements during 2000. Accounting principles generally accepted within the United States of America for Federal reporting entities were adopted to ensure compliance with reporting requirements for government agencies. In addition, the OCC implemented the use of standard federal budget object class (BOC) codes.

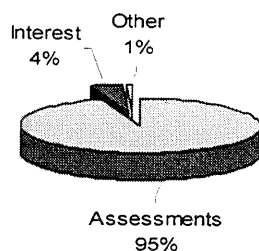
New funds control processes provide management with more accurate, timely, and reliable financial information. Open obligations and commitments are now included as components to determine fund availability. Financial data is tracked at the BOC level, providing detailed information to help ensure the budget is executed as planned.

New processes were established to enhance management accountability over budget execution. Organizations are required to review and reconcile system budget reports with individual unit records monthly to ensure the accuracy of financial information used by management to make decisions. A financial performance status report is presented to the Executive Committee each month for review.

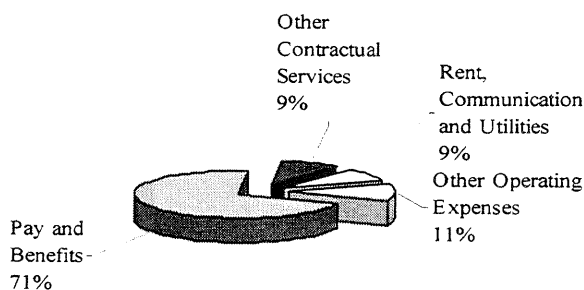
The OCC also instituted revised revenue forecasting techniques. These new techniques have resulted in a more accurate revenue projection and a more detailed accounting of actual versus projected revenues.

### Funding Sources and Uses

The revenue of the OCC is derived primarily from assessments and fees paid by the national banks and from income on investments in U.S. government securities. The OCC does not receive Congressional appropriations to fund any of its operations. Funding sources are as follows:



The OCC uses revenues to cover operating costs to support its mission. Uses of funds are as follows:



## **Limitations of the Financial Statements**

The financial statements have been prepared to report the financial position of the OCC and its net costs, changes in net positions, budgetary resources, and reconciliation of net costs to budgetary obligations, pursuant to the requirements of 31 U.S.C. 3535(b). While the statements have been prepared from the books and records of the OCC in accordance with the format prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for the components of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without authorization that provides resources to do so.

## **4. Systems, Controls, and Legal Compliance**

The OCC evaluated its system of management control during 2000. The results indicate that the OCC's system of internal management, accounting, and administrative control, taken as a whole, are sufficient and effective except for the matter noted below.

### **Financial Management Systems**

The OCC's financial management systems currently do not comply with Federal financial management systems requirements and the United States Government Standard General Ledger at the transaction level. This instance of nonconformance will be eliminated with the implementation of a new financial management system scheduled for October 1, 2001. The OCC has taken temporary steps to compensate for the limitations of the current system and to ensure that the information reported is accurate, reliable, and timely, and that it is in accordance with accounting principles generally accepted in the United States of America for Federal reporting entities and the United States Government Standard General Ledger.

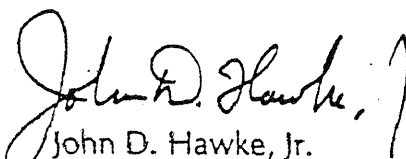
This was also reported in OCC's Annual Assurance Statement for the year 2000, which was signed by the Comptroller of the Currency in January 2001.

5. Annual Assurance Statement - 2000

Department of the Treasury  
Office of the Comptroller of the Currency

Annual Assurance Statement  
2000

As the Comptroller of the Currency, I recognize the importance of management controls. I have taken the necessary measures to ensure that the evaluation of the system of management control of the OCC has been conducted in a conscientious and thorough manner during 2000. The results indicate that the OCC's system of internal management, accounting and administrative control, taken as a whole, are sufficient and effective. As a result, I can provide a reasonable assurance that FMFIA Section 2 objectives are being achieved and a qualified assurance that FMFIA Section 4 objectives have been met. Although at the present time, OCC's financial management systems do not comply with Federal financial management systems requirements and the United States Government Standard General Ledger (SGL) at the transaction level, this situation *should* be remedied when our new financial management system is fully operational, which is scheduled to occur October 1, 2001.

  
John D. Hawke, Jr.  
Comptroller of the Currency



## **II. Auditor's Report**



2001 M Street, N.W.  
Washington, D.C. 20036

## Independent Auditors' Report on Financial Statements

The Comptroller of the Currency:

We have audited the accompanying balance sheet of the Office of the Comptroller of the Currency (OCC) as of December 31, 2000, and the related statements of net cost, changes in net position, budgetary resources and financing (hereafter collectively referred to as "financial statements") for the year then ended. These financial statements are the responsibility of the OCC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of December 31, 2000, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated March 30, 2001, on our consideration of the OCC's internal control over financial reporting and on its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The information in the Management's Discussion and Analysis section is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and, accordingly, we express no opinion on it.

**KPMG LLP**

March 30, 2001



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is  
a member of KPMG International, a Swiss association.



2001 M Street, N.W.  
Washington, D.C. 20036

## **Independent Auditors' Report on Internal Control over Financial Reporting**

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of December 31, 2000, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the year then ended, and have issued our report thereon dated March 30, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered the OCC's internal control over financial reporting by obtaining an understanding of the OCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on the OCC's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the OCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of these reportable conditions are considered to be material weaknesses. Exhibit II presents the status of prior year reportable conditions.



### **Additional Procedures**

With respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the OCC's Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on internal control related to performance measures.

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We also noted other matters involving internal control and its operation that we have reported to the OCC's management in a separate letter dated March 30, 2001.

This report is intended solely for the information and use of the OCC's management, the Department of Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

March 30, 2001

**Office of the Comptroller of the Treasury  
Reportable Conditions  
For Fiscal Year Ended December 31, 2000**

***1. Adequate controls over Time and Travel Reports (TTRS) disbursements were not in place***

We noted examples where the OCC procedures related to TTRS disbursements processing were not followed. Internal controls over the TTRS disbursements process should be properly designed to achieve desired control objectives, and subsequently placed in operation. The nature of the OCC's operations require its personnel to travel considerably. As such, the controls surrounding the TTRS process should be operating effectively. In instances where TTRS disbursements controls are not operating effectively, potential accounting misstatements, irregularities, and other errors may occur.

During our audit, we identified 15 instances, out of a sample of 45 items, where the internal controls over disbursements were not functioning as designed. The exceptions included inadequate supporting documentation, inadequate approvals, and untimely approval and submission of expense reports.

Failure to perform certain internal control functions puts the OCC at risk of failing to prevent and detect errors, fraud, omissions in travel disbursements, and misstated accounting records.

**Recommendations**

In order to improve internal controls over TTRS disbursements, we recommend the OCC continue to take action to improve on its performance in monitoring and enforcing time and travel expense reporting procedures. Such actions should include supervisory and quality control reviews.

***2. Internal controls over timekeeping were not adequate***

The OCC did not consistently follow its procedures for timekeeping functions relating to certifying rosters and applications for leave. The inadequate operation of the controls related to timekeeping and certifying rosters is a weakness that increases the risk of irregularities, fraud, and other errors. We noted 8 exceptions out of 45 sample items tested. The nature of the errors included inadequate and untimely leave slip and certifying roster approvals, and inaccurate certifying rosters.

Untimely or inadequate review of certifying rosters increases the risk that errors, fraud, or omissions in annual leave, sick leave, comp time, etc. will go undetected. In the absence of adequate review and recording of annual leave slips, the risk of employees taking leave without their annual leave balances being charged is increased. Furthermore, annual leave slips may be processed with errors if not adequately reviewed by a supervisor.

**Recommendations**

We recommend the OCC:

- Implement procedures to enforce controls surrounding completion, submission, and accounting for annual leave and certifying rosters.
- Develop a periodic internal audit program for current employees related to certifying rosters and annual leave processing. The audits should be performed by personnel not responsible for entering leave data into the system.

## OFFICE OF THE COMPTROLLER OF THE CURRENCY

## Status of Prior Reportable Conditions

1999 Reportable Conditions	2000 Status
<p><i>Timely reconciliation of fund balance with Treasury account with U.S. Treasury records was not performed.</i>  <i>(Reconciliations for May 99 not completed until Oct 99.)</i></p>	<p>Improvements were made during calendar year 2000. The reconciliation was current for most of the year and completed upon receipt of the monthly TFS 6653, Statement of Differences from Treasury. Financial Management (FM) assigned reconciliation tasks to specific employees effective with the March 2000 reorganization. A monthly supervisory review and approval sheet was completed and implemented. Procedures for performing monthly Treasury Fund Balance reconciliations were documented. However, during the fourth quarter of the calendar year, the reconciliations were not completed and reviewed in a timely manner.  Current year status: Downgraded to a management letter comment.</p>
<p><i>The OCC lacks adequate written procedures for many of its accounting and financial processes.</i>  <i>(Many key policies were still in draft version and OCC lacked Standard Operating Procedures.)</i></p>	<p>Improvements to existing draft policies were noted. According to FM, draft policies and procedures will be finalized during installation of the new financial management system, and by December 31, 2001 at the latest.  Current year status: Downgraded to a management letter comment.</p>
<p><i>Internal controls over timekeeping were not adequate.</i>  <i>(OCC did not consistently follow timekeeping procedures.)</i></p>	<p>Although training was provided to timekeepers and some improvement was made during calendar year 2000, policies and procedures were not being adhered to consistently.  Current year status: Reportable Condition.</p>
<p><i>Adequate controls over disbursements were not in place.</i>  <i>(OCC employees failing to follow procedures relating to processing disbursements)</i></p>	<p>Improvements in disbursement processing were noted.  Current year status: Corrected.</p>



2001 M Street, N.W.  
Washington, D.C. 20036

## **Independent Auditors' Report on Compliance with Laws and Regulations**

The Comptroller of the Currency:

We have audited the balance sheet of the Office of the Comptroller of the Currency (OCC) as of December 31, 2000, and the related statements of net cost, changes in net position, budgetary resources and financing, for the year then ended, and have issued our report thereon dated March 30, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The OCC's management is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance about whether the OCC's financial statements are free of material misstatement, we performed tests of the OCC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the OCC. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph of this report, exclusive of the Federal Financial Management Improvement Act (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Additionally, as a bureau within the U.S. Department of the Treasury, the OCC reported two instances in which its financial management systems did not substantially comply with FFMIA in its fiscal year 2000 annual assurance statement submitted to Treasury. These instances of substantial noncompliance are related to:

- Federal financial management systems requirements, and
- The United States Government Standard General Ledger at the transaction level.



The OCC is scheduled to implement a new financial management system on October 1, 2001. The OCC's management expects the implementation of the new system to eliminate the foregoing instances of substantial noncompliance.

We also noted other matters involving compliance with laws and regulations that, under *Government Auditing Standards*, are not required to be included in this report, but that we have reported to the management of the OCC in a separate letter dated March 30, 2001.

This report is intended solely for the information and use of the OCC's management, the U.S. Department of Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 30, 2001



### **III. Financial Statements**

**Office of the Comptroller of the Currency**  
**Balance Sheet**  
**December 31, 2000**

**Assets**

Intra-governmental	
Fund Balance with Treasury	\$ 2,260,404
Investments and Related Interest (Note 3)	236,332,424
Advances and Prepayments	610,154
Total Intra-governmental	<u>239,202,982</u>

With the Public	
Cash	26,092
Accounts Receivable, Net	40,354
Property and Equipment, Net (Note 4)	29,016,595
Advances and Prepayments	1,651,496
Total With the Public	<u>30,734,537</u>

<b>Total Assets</b>	<b>\$ <u>269,937,519</u></b>
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**Liabilities**

Intra-governmental	
Accounts Payable	\$ 1,561
Total Intra-governmental	<u>1,561</u>

With the Public	
Accounts Payable	13,276,851
Accrued Payroll and Benefits (Note 7)	14,335,152
Accrued Annual Leave	18,709,587
Post Retirement Benefits (Note 7)	6,963,586
Total With the Public	<u>53,285,176</u>

<b>Total Liabilities</b>	<b>53,286,737</b>
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**Net Position**

<b>Total Net Position (Note 6)</b>	<b><u>216,650,782</u></b>
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<b>Total Liabilities and Net Position</b>	<b>\$ <u>269,937,519</u></b>
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*The accompanying notes are an integral part of these financial statements*

**Office of the Comptroller of the Currency**  
**Statement of Net Cost**  
**For the Year Ended December 31, 2000**

**Net Cost to Regulate and Supervise National Banks**

Program Cost	
Intra-governmental	\$ 54,049,568
With the Public	337,897,970
Total Program Cost	<u>391,947,538</u>
Less: Earned Revenues	<u>(403,562,470)</u>
Net Cost of Operations	<u><u>\$ (11,614,932)</u></u>

*The accompanying notes are an integral part of these financial statements*

**Office of the Comptroller of the Currency  
Statement of Changes in Net Position  
For the Year Ended December 31, 2000**

<b>Net Cost of Operations</b>	<b>\$ 11,614,932</b>
<b>Financing Source</b>	
Imputed Financing	<u>15,074,030</u>
<b>Net Results of Operations</b>	<b>26,688,962</b>
<b>Net Position, Beginning of Year</b>	<u>189,961,820</u>
<b>Net Position, End of Year</b>	<b><u>\$ 216,650,782</u></b>

*The accompanying notes are an integral part of these financial statements*

**Office of the Comptroller of the Currency  
Statement of Budgetary Resources  
For the Year Ended December, 31, 2000**

**Budgetary Resources**

Unobligated Balance, Beginning of Period	\$ 158,895,063
Spending Authority from Offsetting Collections	403,661,502
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<b>Total Budgetary Resources</b>	<b>\$ 562,556,565</b>
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**Status of Budgetary Resources**

Obligations Incurred	\$ 388,526,505
Unobligated Balance Available	174,030,060
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<b>Total Status of Budgetary Resources</b>	<b>\$ 562,556,565</b>
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**Outlays**

Obligations Incurred	\$ 388,526,505
Less: Spending Authority from Offsetting Collections	(403,661,502)
Obligated Balance, Net, Beginning of Year	50,142,758
Less: Obligated Balance, Net, End of Year	(61,472,926)
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<b>Net Outlays in Excess of Collections</b>	<b>\$ (26,465,165)</b>
	<hr/> <hr/>

*The accompanying notes are an integral part of these financial statements*

**Office of the Comptroller of the Currency  
Statement of Financing  
For the Year Ended December 31, 2000**

**Obligations and Nonbudgetary Resources**

Obligations Incurred	\$ 388,526,505
Less: Spending Authority from Offsetting Collections	(403,661,502)
Financing Source - Imputed Financing	<u>15,074,030</u>

<b>Total Obligations as Adjusted and Nonbudgetary Resources</b>	<b><u>(60,967)</u></b>
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**Resources That Do Not Fund Net Cost of Operations**

Change in Amount of Goods, Services and Benefits Ordered But Not Yet Received	(9,495,023)
Change in Accounts Receivable	310,815
Costs Capitalized on the Balance Sheet	<u>(6,081,245)</u>

<b>Total Resources That Do Not Fund Net Cost of Operations</b>	<b>(15,265,453)</b>
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**Costs That Do Not Require Resources**

Depreciation and Amortization	<u>3,711,488</u>
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<b>Net Cost of Operations</b>	<b><u><u>\$ (11,614,932)</u></u></b>
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*The accompanying notes are an integral part of these financial statements*

**Office of the Comptroller of the Currency**  
**Notes to the Financial Statements**  
**As of December 31, 2000**

**Note 1 - Organization**

The Office of the Comptroller of the Currency (OCC) was created as a bureau within the U.S. Department of the Treasury (the Department) by act of Congress in 1863. The OCC was created for the purpose of establishing and regulating a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of these federally chartered institutions.

The revenue of the OCC is derived primarily from assessments and fees paid by the national banks and income on investments in U.S. government securities. The OCC does not receive Congressional appropriations to fund any of its operations.

By federal statute at 12 USC § 481, the OCC's funds are maintained in a U.S. government trust revolving fund. The funds remain available to cover the annual costs of OCC operations in accordance with policies established by the Comptroller of the Currency.

The OCC collects Civil Monetary Penalties (CMP) due to the Federal government that are assessed through court enforced legal actions against a National Bank and/or its officers. CMP collections transferred to the Department's General Fund amounted to \$468,976 during 2000. Current outstanding CMP amount to \$739,673.

Departmental Offices (DO), another entity of the Department, provides certain administrative services to the OCC. The OCC pays the Department for services rendered pursuant to established interagency agreements. Administrative services provided by DO totaled \$1,965,260 for the year ended December 31, 2000.

**Note 2 - Significant Accounting Policies**

***Basis of Accounting***

The accounting policies of the OCC conform to accounting principles generally accepted in the United States of America for Federal reporting entities (GAAP). Accordingly, the financial statements are presented on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to cash receipt or payment.

***Fund Balance with Treasury***

Cash receipts and disbursements are processed primarily by the U.S. Treasury. The funds are maintained in a U.S. government trust revolving fund and are available to pay entity current liabilities.

**Office of the Comptroller of the Currency**  
**Notes to the Financial Statements**  
**As of December 31, 2000**

***Accounts Receivable***

Accounts receivable represent monies owed to the OCC for services or goods provided. At year-end accounts receivable amounted to \$156,729 less an allowance for doubtful accounts of \$116,375.

***Advances and Prepayments***

Advances and prepayments to other government agencies represent advance payment to the DO for services and goods not yet received. Advances and prepayments to the public represent rent and insurance paid in advance.

***Liabilities***

Liabilities represent the amount of monies that are likely to be paid by the OCC as the result of a transaction or event that has already occurred. Liabilities represent the amounts owing or accruing under contractual or other arrangements governing the transactions, including operating expenses incurred but not yet paid. Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost effective and the invoice is paid by the discount date.

***Annual, Sick, and Other Leave***

Annual leave is accrued as earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. Sick leave and other types of leave are expended as taken.

***Use of Estimates***

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Note 3 - Investments and Related Interest**

Investments and related interest are U.S. Government securities stated at amortized cost and related interest accrued on investments. The OCC plans to hold these investments to maturity. Discounts are amortized over the term of the investment using the straight-line method, which approximates the effective yield method. The



**Office of the Comptroller of the Currency**  
**Notes to the Financial Statements**  
**As of December 31, 2000**

fair market value of investment securities amounted to \$238,832,500 at December 31, 2000. Investments and related interest as of December 31, 2000, are as follows:

Cost	\$ 235,926,000
Unamortized Discount	(353,842)
Net Amortized Value	<u>235,572,158</u>
Interest Receivable	760,266
Investments and Related Interest	<u><u>\$ 236,332,424</u></u>

<b>Maturity</b>	<b>Par Value</b>	<b>Interest Rate</b>
Overnight	\$100,926,000	5.990%
During 2001	\$ 30,000,000	5.875%
During 2002	\$ 80,000,000	5.750%
During 2006	\$ 25,000,000	6.875%

**Note 4 - Property and Equipment, Net**

Property and equipment purchased with a cost greater than or equal to the thresholds below and useful lives of two years or more are capitalized at cost and depreciated or amortized, as applicable.

Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives. The following table summarizes property and equipment balances as of December 31, 2000.

<b>Class of Asset</b>	<b>Capitalization</b>		<b>Cost</b>	<b>Accumulated</b>	<b>Net Book</b>
	<b>Threshold *</b>	<b>Life</b>		<b>Depreciation</b>	<b>Value</b>
Leasehold Improvements	\$50,000	5-20	\$ 30,848,817	\$ 19,149,097	\$ 11,699,720
ADP Software	\$50,000	5-10	2,021,763	2,020,938	825
Equipment	\$50,000	3-10	11,950,010	7,954,865	3,995,145
Furniture and Fixtures	\$50,000	5-10	1,672,111	1,132,977	539,134
Internal Use Software	\$500,000	5	12,781,771	-	12,781,771
Total			<u>\$ 59,274,472</u>	<u>\$ 30,257,877</u>	<u>\$ 29,016,595</u>

\* Bulk Purchase Threshold is \$250,000

**Office of the Comptroller of the Currency**  
**Notes to the Financial Statements**  
**As of December 31, 2000**

**Note 5 - Leases**

The OCC leases office space for headquarters operations in Washington, D.C., and for the district and field operations throughout the United States. The lease agreements expire at various dates through 2008. These leases are treated as operating leases. Future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2001	\$ 23,178,464
2002	21,375,838
2003	19,088,042
2004	15,685,159
2005	14,174,336
2006 and Beyond	6,293,098
Total	<u>\$ 99,794,937</u>

**Note 6 - Net Position**

The OCC sets aside a portion of its Net Position as Special and Contingency Reserves to be used at the discretion of the Comptroller.

The Special Reserve supplements revenue from assessments and other sources that are made available to fund the OCC's annual budget. The Special Reserve serves to reduce the impact on operations of unforecasted revenue shortfalls or unbudgeted and unanticipated requirements or opportunities.

The Contingency Reserve supports OCC's ability to accomplish its mission in the case of unforeseeable but rare events. Unforeseeable but rare events are beyond the control of the OCC such as a major change in the National Bank System or a disaster such as a fire, flood, or significant impairment of its information technology systems. Net Position availability as of December 31, 2000, is as follows:

Contingency Reserve	\$ 159,030,060
Special Reserve	15,000,000
Available to Cover Consumption of Assets	31,530,383
Available to Cover Undelivered Orders	11,090,339
Net Position	<u>\$ 216,650,782</u>

**Office of the Comptroller of the Currency**  
**Notes to the Financial Statements**  
**As of December 31, 2000**

**Note 7 - Retirement Plans and Other Benefits**

*Retirement*

The OCC employees are eligible to participate in one of two retirement plans. Employees hired prior to January 1, 1984 are covered by the Civil Service Retirement System (CSRS) unless they elected to join the Federal Employees Retirement System (FERS) and Social Security during the election period. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For employees covered by CSRS, the OCC contributes 8.51 percent of their gross pay to the plan. For employees covered by FERS, the OCC contributes 10.7 percent of their gross pay. The OCC contributions totaled \$19,930,333 in 2000.

The OCC does not report in its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, are the responsibility of the Office of Personnel Management (OPM).

*Other Benefits*

The OCC employees are eligible to participate in the Federal Thrift Savings Plan (TSP). For those employees under FERS, a TSP account is automatically established, and the OCC contributes a mandatory 1 percent of basic pay to this account. In addition, the OCC matches employee contributions up to an additional 4 percent of pay, for a maximum OCC contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but do not receive the OCC automatic (1 percent) and matching contributions. The OCC contributions for the TSP totaled \$5,034,632 in 2000. The OCC also contributes for Social Security and Medicare benefits for all eligible employees.

Employees can elect to contribute up to 10 percent of their adjusted base salary in the OCC 401(K) Plan, subject to Internal Revenue regulations. Prudential Securities Incorporated currently administers the plan. The OCC contributes 1 per cent of adjusted base salary to the OCC 401(K) Plan accounts of participating employees. Approximately 2,300 employees are enrolled in the plan; the OCC 1 per cent matching contribution amounted to \$869,707 during 2000.

The OCC sponsors a life insurance benefit plan for current and former employees. This plan is a defined benefit plan. Premium payments made during 2000 totaled

**Office of the Comptroller of the Currency**  
**Notes to the Financial Statements**  
**As of December 31, 2000**

\$117,460. The following shows the accrued post-retirement benefit cost for this plan at December 31, 2000, and the net periodic post-retirement benefit cost for 2000:

Accumulated Post-Retirement Benefit Obligation	\$ (6,736,388)
Unrecognized Transition Obligation	2,074,056
Unrecognized Net Gain	(2,301,254)
Accrued Post-Retirement Benefits	\$ <u>(6,963,586)</u>
Service Cost	\$ 269,441
Interest cost	488,270
Amortization of Gain	(135,072)
Amortization of Transition Obligation	172,837
Net Periodic Post-Retirement Benefit Cost	\$ <u>795,476</u>

The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 7.5 percent. Gains or losses due to changes in actuarial assumptions are amortized over the service life of the plan.

Employees and retirees of the OCC are eligible to participate in the Federal Employees Health Benefits (FEHB) plans and Federal Employees Group Life Insurance (FEGLI) plan, which are cost sharing employee benefit plans administered by the OPM. The OCC contributions for active employees who participate in the FEHB plans were \$9,591,175 for 2000. The OCC contributions for active employees who participate in the FEGLI plan were \$175,039 for 2000.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees under FECA are administered by the Department of Labor (DOL) and later billed to the OCC. The OCC accrued \$4,140,400 of workers' compensation costs as of December 31, 2000. This amount includes unpaid costs and an actuarial estimated liability for unbilled costs incurred as of year-end calculated by DOL.